Delaware Energy Efficiency Fund
Loan Application Guidance

The following information is intended to serve as a resource in determining whether an entity qualifies for an EEIF loan. Basic loan terms and conditions are discussed. Should you proceed with a loan application or desire additional information, we suggest you contact the DNREC EEIF Program.

Borrower Eligibility

Eligible borrowers can be any legal entity or individual authorized to incur debt and enter into legally binding agreements. A borrower must own or lease the eligible property.

1. Applicants must be non-residential entities located in Delaware that pay the Delaware Public Utility Tax.
2. Property must be in Delaware and owned or leased by the applicant.
3. Applicant must meet the following threshold criteria:
    a. No outstanding judgments or liens that impair applicant's financial health.
    b. Can produce confirmation of good standing.

As with traditional loans, an analysis and evaluation will be made of each loan application to make certain that applicants have the resources to repay the loan.

Financing may be withdrawn if a project cannot be started or completed within the project implementation schedule. The applicant shall have no outstanding judgments and not be delinquent nor in default on any federal, state, or local tax obligation.

Terms and Conditions of the Loan

- Interest rates are fixed at or below the prevailing prime interest rate.
- A loan fee of not more than five hundred dollars ($500.00) may be charged.
- Minimum and maximum loan awards are determined for each loan cycle and depend on the total amount of loan funds available.
- The loan term will be the energy savings payback period plus one year. Full repayment is required when:
    1. The property is refinanced, or
    2. The property is sold.
- All loans require adequate collateral.
- Scheduled repayment is required during the term of the loan, and may be fully amortized, including principle and interest, or principal/interest only.

Interest Rate Eligibility

Varying eligible parties may seek optimal interest rates based on their legal status and the nature of the development project.

- Non-Profit: Defined as any 501(c)(3) corporation as defined in Title 26 of the United States Code, may include Community Development Corporations [CDCs], Redevelopment Authorities, churches, etc). These parties may be eligible for up to a 2.0% interest rate reduction if the project meets one of more of the following:
  - Leadership in Energy and Environmental Design (LEED), Energy Star, and/or Green Globe green building certification

- Private Entity: These parties may be eligible for up to a 1.0% interest rate reduction if the project meets one of more of the following:
  - Leadership in Energy and Environmental Design, Energy Star, and/or Green Globe green building certification
  - Participation in Continuous Energy Improvement/Strategic Energy Management Programs

Loan Application and Approval Process

The EEIF Program will initiate the loan review and approval process once the project has been selected. This process will involve the participation of DNREC staff or other consultants as needed. As the Fund manager, DNREC is ultimately responsible for approving borrowers, sites, and activities in addition to ensuring prudent lending practices are adhered to with respect to loans.

The loan approval process will generally proceed as follows:

1. EEIF Project Application (Part A) will be reviewed and ranked based on the Project Selection Criteria and placed on the priority project list.
2. If the funding is available, DNREC will review the loan application for completeness and the Department will analyze the financial components of the loan application. The review may involve consultation with the other partners.
3. Applicants that are approved for an EEIF loan will receive a commitment letter from DNREC detailing the terms, conditions, and collateral requirements.
4. Applicants approved for EEIF funding will be sent an EEIF Loan Agreement for completion of signatures and a list of any closing documents to be provided by the applicant. All recipients of EEIF funds will be required to enter into a standard loan agreement with DNREC. The applicant will be required to pay the State's expenses for

the loan processing, not to exceed $500.00. Cross-corporate and personal guarantees may be required.

Financial Risks and Analysis

To evaluate the financial soundness of the applicant and the project, the analysis will consider the following:

1. The legal structure of the applicant.
2. The historical financial condition of the applicant. The applicant's financial condition will be assessed and compared to industry standards.
3. Three years of historical data to include:
    - Fiscal year-end balance sheets and income statements.
    - Business tax returns.
    - A project balance sheet and income statement (if the applicant is a start-up)
4. The history of credit/borrowing transactions of the applicant's business.
5. The financial ability and resources of the applicant to complete the project.

Additionally, the proposed project and the applicant must meet the following financial guidelines:

- The business must have a positive working capital position.
- The business must have a positive tangible net worth.
- The business must provide acceptable collateral with adequate coverage.

Loan Underwriting Criteria

The evaluation of underwriting criteria will assist with the assessment of the risks involved in funding the loan request. As a result of this assessment, terms and conditions will be determined and specified in the loan agreement and other loan documents that will provide financial security to the EEIF loan. Underwriting the requests to the EEIF program using the guidelines below will allow for proper "weighting" of the risks involved with each proposed project. Even though the EEIF program is not a traditional lender, all partners will adhere to generally accepted prudent lending practices.

Loan underwriting will be completed by DNREC based on the approval of EEIF funding. As EEIF fund manager, DNREC has the ultimate responsibility to approve or deny any loan requests, as well as to produce and execute all loan documents.

The primary criteria for underwriting loan requests to the EEIF program will include:

- Ability to repay the loan
- Adequate collateral

- Commitment by borrower
- Balance sheet analysis
- Satisfactory Credit History
- Satisfactory Bank references

Ability to Repay the Loan

The primary source of repayment by applicants to the EEIF program will usually be cash flow from business operations including the energy savings. The ability to repay through cash flow is expressed as the Debt Coverage Ratio (DCR), defined as follows:

DCR=Cash Flow Available for Debt Service/Debt Service
Debt Coverage Ratio: Net profit + Depreciation, Depletion, Amortization Expenses+ Energy Savings divided by current portion of Long Term Debt

Adequate Collateral

DNREC, on behalf of the EEIF program, will not make any unsecured loans and may take a security interest in the business assets to ensure a means of recouping the loan. Security interests in business and personal assets may include:

- Accounts Receivable
- Inventory
- Energy Conservation Measure equipment
- Other Business-related Real Estate
- Equity in Guarantors Personal Real Estate
- Letter of Credit

Liquidation of the collateral and the ability to repay the loan is measured by the Loan-to-Value Ratio (LVR) and is expressed as follows:

LVR = Loan Amount/Fair Market Value of the Collateral

Commitment by Borrower (Loan Guarantees)

Cash flow and collateral are the two sources of repayment, however normal lending practice usually includes a third or tertiary source, that of guarantees by the owners. Depending on the overall strength of the loan application, the personal guarantees may require a security interest in personal assets to “back up” the guarantee. Where a substantial personal asset is ownership of another business, that business may also be required to guarantee the debt.
Personal Guarantees of owners are required unless:

  - Non-profit (established for 3 years+)

- Commercial: D&B rated 3A2 or better and can show other loans without Personal Guarantees.
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Balance Sheet Analysis

The balance sheet of the applicant business must indicate the business has the ability and resources to repay the loan and start and complete the project.

The applicant should present the last three years fiscal balance sheets. The Applicant must show positive cash flow last 2 of 3 years.

Favorable Credit History

The applicant business and the owner(s) should have favorable credit histories during the past five years.